



**Remarks of Signature Healthcare Interim CEO Gene Wallace
to the Public Health Commission**

June 8, 2010

Attorney General Coakley, Ms. Gorga of the Public Health Council and members of the panel:

Thank you for coming to Brockton tonight and for the opportunity to speak with you about the proposed acquisition of the Caritas Christi Healthcare System by Cerberus Venture Capital.

My name is Gene Wallace, and I am the interim Chief Executive Officer of Signature Healthcare Corporation, the parent of Brockton Hospital. I have been with Signature for about 18 months, including the past year as its interim CEO; prior to that time I spent more than 35 years working in healthcare at the Beth Israel Hospital, the Beth Israel Deaconess Medical Center and at Harvard Vanguard Medical Associates. The thoughts I will share with you this evening are based on that long view of healthcare in eastern Massachusetts, on other mergers and acquisitions I have observed, and on what I know from my tenure in Brockton about the essential role which is played by community-based health organizations like Brockton Hospital.

Brockton Hospital provides a broad range of health services to this region. In 2009, there were more than 15,000 inpatient discharges from the hospital, more than 1,200 births, and more than 62,000 emergency department visits at Brockton Hospital. In fact, our Emergency Department is proportionately one of the busiest in the state. We provided \$19.5 million in unreimbursed

care, and almost \$3 million in ‘community benefit’, including health screenings, immunizations and education.

That contribution is essential. But just as important, if less recognized, is the hospital’s role as a key economic driver in the region: we are the largest private employer in Brockton, and second only to the City of Brockton itself in the size of our workforce. Our payroll is over \$85 million, and we purchased \$38.5 million in goods and services last year, much of that from Brockton-based businesses like W.B. Mason. In short, we make a difference to Brockton. ***We are its community hospital.***

Brocktonians benefit from two hospitals, our own as well as Good Samaritan Hospital, which is part of the Caritas system and therefore what brings you here tonight. Brockton also benefits from an active and vibrant community health center. And yet, even with all of the resources of those three institutions, and even with the hundreds of medical professionals who are part of those institutions, Brockton still suffers from some of the worst public health indices in the state. Our citizens have higher rates of diabetes, of cardiovascular disease, of cancer. Their tobacco use is far higher than the state’s average, asthma is rampant and far too many expectant mothers still forego appropriate prenatal care. I ask you to keep this picture in mind as you think about the implications of the transaction Cerberus has proposed.

At the core of our mission as a non-profit caregiver is the treatment of our ***whole*** community. It is part of our mission as the ‘community’ hospital. Our colleagues at Good Samaritan have been providing quality care to the Brockton community for many years. They are an important asset to the region. And while their organizational chart may show them answering to the Caritas Christi system, I know that they also answer to this community. They support its good causes. They join important task forces struggling with large policy problems. They provide free care to those who can’t pay.

However, under new ownership, the likelihood that they will continue to answer to the community in any real sense is diminished. And that is at the core of what we are asking you to examine tonight: how can this transaction be structured to ensure that they continue to do all of that good and important work for our community, when they become part of a system which

answers not to the community, and not to the Attorney General or the Public Health Council, but to the investors of an equity investment firm based far away from the city of Brockton or the Commonwealth of Massachusetts, and possibly, in the not-too-distant future, to the shareholders of an as yet unnamed public company.

The proposed relationship between Caritas Christi and Cerberus will pump badly needed dollars into Good Samaritan's facility - dollars that will help them to erase debt and invest in bricks, mortar, high technology and new medical facilities and personnel. Desperately needed new jobs will be created, as well. All of this is good for Brockton. In return, however, the obligation of this new for-profit entity will be to maximize profits for the investors who are providing the financing for the purchase. I have no quarrel with that: This is how the capitalist system works, and I'm a big backer of capitalism. But it is indeed a very different look than how healthcare has been traditionally delivered in the Commonwealth.

I am asking tonight that you recognize that, by taking Good Samaritan into the for-profit sector, Cerberus need only answer to its investor. Eventually, Cerberus may cede ownership to another firm which in turn need only answer to its shareholders. As currently proposed, the terms of this transaction are only guaranteed for three short years. At the end of that window, the decisions you make now will shape this transfer of assets from community oversight to equity investment to stockholder return. Your decisions will be formative in determining its future and its ability to continue serving the community—*ALL* of the community. As you contemplate this transaction, I ask that you do so remembering that it is the community hospital which remains as the community asset, and that it is our collective responsibility to ensure that the decisions we make are not those which further the creation of a two-tiered health system.

When Good Samaritan becomes a for-profit entity, there is a very real concern that the relentless drive for profits – to repay initial investors and then create an enticing asset which remains attractive to shareholders – will require the hospital to concentrate on care for patients who can pay top-dollar for their services. Care for the poor, for the uninsured or underinsured, for those who use the emergency room as their primary care physician, will be curtailed. The infusion of capital into the Caritas system will make available to Good Samaritan additional funds with

which it will be able to recruit physicians and other caregivers with larger salaries and more benefits. Good Samaritan, with deeper pockets, will likely use that extra funding to increase its share of insured and paying patients. Good Samaritan could become the well-marketed hospital that seeks to expand its profitable lines of care and service at the expense of the less profitable basics. Brockton Hospital will be left to care for patients who are uninsured, or underinsured, exacerbating the financial condition of a community hospital which unfortunately has almost empty pockets.

I know that no one here willingly supports a two-tiered system. But without taking a long look into the future, you risk a transaction structured to produce that very outcome. I have four recommendations that I think apply not just here, but in each of the communities where a suddenly-affluent former Caritas facility is soon going to be pitted against a far less flush non-profit hospital, recommendations which I believe will withstand the market forces and ensure the best benefits for the patients and communities at the center of our work.

My first recommendation is in the area of 'free care'. Right now Good Samaritan and Brockton Hospital have very different ratios of insured and uninsured patients. Brockton Hospital is a Disproportionate Share, or DSH, hospital, and 70% of the dollars we receive are from public sources. That's well above the 63% threshold for DSH status. Good Samaritan is not a DSH hospital, so we know that their proportion of publicly-funded patients is below 63%.

If we are not going to end up with one hospital in Brockton for those with private healthcare coverage, and another for those with government-funded, or subsidized, or no coverage at all, the final parameters of this acquisition must make certain that the health care playing field is leveled to the greatest extent possible. I would ask that you require, as a condition of your approval, that Cerberus, or Steward Health Care, ensure that the for-profit Good Samaritan will continue to serve at least the same percentage of uninsured patients as the non-profit Good Samaritan does now. Should that percentage reduced in the future, Good Samaritan would be required by the terms of this deal to make up the difference through a financial calculation which is part of the agreement. This requirement would survive future sales of Good Samaritan, so that Brockton can be assured that both of its hospitals will provide care to all who are in need.

My second recommendation relates to the Community Benefit Guidelines which the Attorney General has crafted for non-profit hospitals. These guidelines mandate what our hospitals must offer to the most underserved and needy in our community. Good Samaritan is proud to market all of its community benefits contributions, and they are significant. Brockton would feel their loss. I would ask you now to strongly consider conditioning your approval of this transaction on a commitment by Cerberus to abide by these guidelines. Again, such a requirement would survive future sales of the hospital.

The third opportunity for fairness is through a charitable foundation for the community, and not just the church. Under other conversions of non-profit hospitals to for-profit institutions, the transaction has been conditioned on the creation of a well-funded foundation, endowed by the for-profit entity, which is dedicated solely to providing a steady, healthy stream of funding to address the needs of underserved communities. While the Cerberus agreement mentions a foundation which might be created for the Archdiocese of Boston if Cerberus were to relinquish its religious affiliation, I would respectfully ask that you consider requiring the establishment of a Cerberus Foundation for Brockton, effective with the transaction.

While the purchase price for the assets of the Caritas system is described as \$830 million, a closer review reveals that only \$430 million is payment for the assets of the system, which includes the retirement of significant debt and the funding of pension obligations. The remaining \$400 million, the amount that Cerberus is trumpeting as investments in Caritas' facilities and operations, is actually being spent only for the benefit of the new, for-profit entity. In that context, it seems more than reasonable to require that some significant money also be dedicated to the communities directly affected by the loss of a significant public charity, their non-profit hospital. Cerberus has proposed that if the affiliation with the Archdiocese is potentially terminated in three years, a \$25 million fund for the benefit of the Archdiocese will be endowed. Given the magnitude of this transaction and the need in the communities which Cerberus is entering, a foundation created for the benefit of those communities in the \$100M range is what is required, with a proportionate share earmarked for Brockton and its long-term benefit.

Finally, no level playing field is possible in the Commonwealth given the terrible inequities that exist in reimbursement from both private and public payers. A knee replacement performed at Brockton Hospital is every bit as good as a knee replacement performed at a Caritas hospital; the same goes for the delivery of a baby. And yet Brockton Hospital is reimbursed half as much by Blue Cross. The Attorney General has underscored this disparity in a long-needed, well-researched report on the inequities of reimbursement in Massachusetts by private payers. The AG's report reveals that payment is the result of 'market clout', and the hospitals in the Caritas system already have enough clout to be paid well above the median, and well above Brockton Hospital.

The hospitals which are part of this sale will benefit from a checkbook with a starting balance of \$400 million. These are funds they can use for strategic investments, for capital construction, equipment purchases and above-market compensation. The disruptive prospect of that much money is distressing, especially to institutions like Brockton Hospital, which operates with virtually no margin. So, my fourth request of those who have the authority to approve this transaction is to work assiduously to address the realities of the payment problem. For a hospital like Brockton to be forced to sue the Commonwealth to be paid fairly for its services, or to await the vagaries of politics in Boston or Washington to receive a short-term boost from Medicare or Medicaid, is an impossible business model. And yet, those are the only resources currently available to us to enhance our bottom line and create a cash cushion for our strategic needs. So I ask that you insist that Cerberus provide a full accounting of its open checkbook, lest a few years of unrestrained spending by a new corporate player cause even greater escalation of healthcare costs in our state, through ever-increasing leverage created by ever-deepening market clout.

Let me say again how important I believe it is that Good Samaritan and the entire Caritas Christi system is placed on firm financial footing through this Cerberus partnership. But Cerberus may or may not be the long-term keeper of this network of hospitals. At the next sale, there will be no charitable assets to force the level of regulatory scrutiny required by this proposed conversion. As a result, there may not be any further opportunities to address any new or unanticipated community needs that may result from this transaction. The decisions you make in

structuring this transaction will influence whether the healthcare system of the future is strong enough to meet the needs of generations to come.

Making community hospitals stronger is making Massachusetts healthcare better. We are grateful that you have given us some time to talk about what this proposed acquisition could mean for Brockton Hospital, for the people of Brockton and for the surrounding region. Please keep us in mind as you contemplate this enormous, shape-shifting decision for our Commonwealth. Thank you.